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9 Attorney for Debtor in Possession.  
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**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF WASHINGTON**

**In re**  
**CENTURION PROPERTIES III,**  
**LLC,**  
  
**Debtor.**

Case No. 10-04024-FLK 11

Chapter 11

**DECLARATION OF MICHAEL E.  
HENRY IN SUPPORT OF MOTION  
TO USE CASH COLLATERAL**

I, MICHAEL E. HENRY, declare and state under penalty of perjury of the laws  
of the State of Washington as follows:

1. I am a resident of the State of Washington and over the age of majority. I  
have personal knowledge of the facts set forth herein and I am competent to testify  
thereto.

DECLARATION OF MICHAEL E. HENRY IN SUPPORT OF MOTION  
TO USE CASH COLLATERAL - 1

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1           2.     I am the owner of Sigma Management, Inc. and SMI Group XIV, LLC. I  
2 am familiar with the books, records and business activities of each entity.

3           3.     SMI Group XIV, LLC is the Managing Member of the Debtor, Centurion  
4 Properties III, LLC ("CP III"). I am fully familiar with the business records and  
5 business affairs of CP III.  
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7           4.     Attached hereto and incorporated herein by reference as Exhibit A is a  
8 true and correct copy of my Declaration filed on February 4, 2010 in the case of  
9 Centurion Properties III, LLC v. Tom Hazelrigg, et al. in the Renton County Superior  
10 Court, identified by Case Number 10-2-00301-8. I submit the Declaration to this  
11 Court for consideration and adopt my prior testimony.  
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14           5.     Attached hereto and incorporated herein by reference as Exhibit B is a  
15 true and correct copy of my Declaration filed on June 21, 2010 in the case of General  
16 Electric Capital Corporation v. Centurion Properties III, LLC, et al. in the Benton  
17 County Superior Court, identified by Case Number 10-2-00372-7. I submit the  
18 Declaration to this Court for consideration and adopt my prior testimony.  
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21           6.     In supplement to my prior Declarations, attached hereto and incorporated  
22 herein as Exhibit C is a Lockbox spreadsheet representative of payments in and  
23 payments out of the Lockbox during the past six months. As noted, herein Battelle  
24 pays monthly Base Rent of \$556,009.28.  
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1           7.     Prior to the default of November 2009, the Debtor made monthly  
2 payments to GECC based upon 6.36 percent of the outstanding loan balance. The  
3 payments were approximately \$330,000.00. The difference between the Base Rent of  
4 \$556,009.28 and the monthly loan payments was remitted back to the Debtor.  
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6           8.     The Debtor has all triple-net leases. The way all operational costs are  
7 paid is that the property manager prepares a service rate year-end reconciliation  
8 document that includes projections of service costs to be incurred for the upcoming  
9 lease year. That documentation includes details on past experience and projection  
10 analysis detail that explains any anomalies in the projected rates. A lease supplement  
11 is then drafted, based on that documentation, and executed by the parties wherein the  
12 tenant pays monthly the projected amount in 12 equal payments. At the end of the  
13 lease year, the process starts over with the same documentation that includes any  
14 reconciliation amounts between the previous payments and actual costs incurred.  
15 Attached hereto as Exhibit D are examples of the reconciliation/projection  
16 documentation as well as subsequent lease supplements that are done for each  
17 building every year.  
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22           9.     The Debtor is at risk when service costs actually exceed the projected  
23 amounts paid by the tenant until reconciliation occurs which could be as much as three  
24 months past the end of the lease year. Prior to the GECC Lockbox, the Debtor used to  
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1 have reserve accounts to draw from to cover any potential shortfalls. For example, if  
2 a 50-ton air handler were to fail one month into the lease year, and the projected  
3 payments did not anticipate that, then the Debtor must pay for the replacement (could  
4 be as much as \$150,000.00 in just one example) when it occurs but would not get  
5 reimbursed for the cost until 12 – 14 months later.  
6

7 10. Attached hereto and incorporated herein by reference as Exhibit E is a  
8 spreadsheet of “Service Rent Projection” for the period of July 2010 through  
9 September 2010. The rent shortfall is estimated at \$645,584.00.  
10

11 11. In February of 2010 the GECC Lockbox had in it \$396,000.00 of  
12 unreleased service payments from the tenant that GECC arbitrarily applied to  
13 principal on their note. This is money that, if not used to pay for actual services costs  
14 on the properties within the lease year, will be required by the lease (under the year-  
15 end reconciliation), to be paid back to the tenant. In fact, the Debtor needs those  
16 monies returned in order to complete the service work agreed to between the parties  
17 by the end of the lease year.  
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21 12. I also calculated the increased costs associated with administration and  
22 management of the Debtor. Attached hereto as Exhibit F is a true and correct copy of  
23 an estimate of the next 90 days.  
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1           13. Attached hereto and incorporated herein as Exhibit G is a true and correct  
2 copy of excerpts of the Self Contained Appraisal Report dated May 14, 2008 which  
3 valued the Debtor's leasehold interest at \$98 million.  
4

5           14. Based upon my experience with the Debtor and involvement in litigation  
6 in the Superior Court for the County of Benton, State of Washington, I believe a  
7 monthly reserve of \$25,000.00 per month for litigation expenses is necessary and  
8 appropriate.  
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10           15. I also believe a general reserve for bankruptcy counsel of \$20,000.00 per  
11 month is appropriate and necessary.  
12

13           16. The Debtor has exhausted all reserves as a result of GECC's decision to  
14 withhold all rents under the Lockbox.  
15

16           I declare under the penalty of perjury of the laws of the State of Washington  
17 that the forgoing is true and correct.

18           Signed this 13<sup>th</sup> day of July, 2010 at Kennewick, Washington.  
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22 MICHAEL E. HENRY

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